



NSP3 Program Design Guidebook

Understanding Markets and Resources to
Create Effective Programs

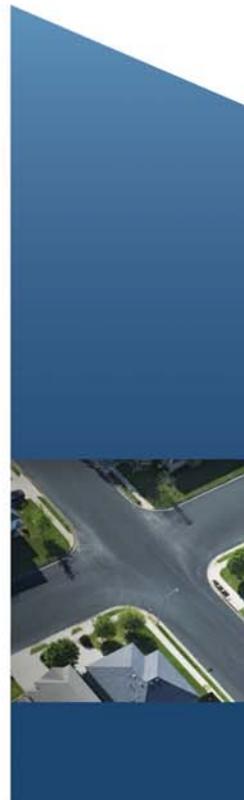


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Overview

Purpose of Guidebook

The *NSP3 Program Design Guidebook* helps NSP3 grantees answer key questions to ensure that they have the best possible strategy to address problems of foreclosures and abandonment:

- What is currently driving the local real estate market and potential NSP submarkets?
- How can financial leverage and organizational partnerships help expand the program?
- Do community goals and needs support the NSP strategy?

NSP3 Planning Process

To develop an effective program and meet production deadlines, NSP3 grantees must make strategic program choices. NSP1 and NSP2 grantees may also find this guidebook helpful in adjusting to changing real estate conditions and developing strategies to use program income.

The *NSP3 Program Design Guidebook* **provides a road map for grantees to develop effective program designs**. The guidebook offers direction on collecting and analyzing market information and **identifies good, free data**, enabling grantees to work with, not against, local real estate market forces. It guides program planners to **ideas on program management and partnerships** as a method of expanding resources, recognizing that many communities are already stretched thin. It shows how **aligning neighborhoods** behind NSP goals can improve implementation. After maximizing the NSP Program's potential resources, local decision-makers can **map an appropriate target area**.

NSP3 Program Types

The guidebook frames the discussion in terms of eight NSP program types. HUD has identified these program types as effective in promoting neighborhood stabilization in NSP-funded communities, based on initial research and observations of what programs have been most effective under NSP1 and NSP2. In all examples, rehabilitation is listed but may not be necessary in all cases.

- **Grantee-driven homeownership.** Grantee/partner buys, rehabilitates, and sells eligible homes.
- **Buyer-driven homeownership.** Prospective homeowners find home; grantee subsidizes purchase.
- **Lease-purchase.** Grantee acquires, rehabilitates, and leases to tenant who then buys home.
- **Multifamily rental.** Grantee/partner acquires, rehabilitates, and rents property long-term.
- **Single-Family rental.** Grantee/partner acquires scattered site homes, repairs, and rents them.
- **Demolition.** Grantee removes blighted property in a strategic way to support program goals.
- **Land banking.** Grantee/partner acquires, maintains, and holds property for future use.
- **Commercial, public, and mixed-use.** Grantee/partner subsidizes only residential portion with NSP funds.

These strategies, alone or in combination, help reduce vacancy rates; HUD also encourages innovation in local design. NSP toolkits for each program type help grantees estimate costs, structure programs, build partnerships, and manage programs more effectively. These toolkits are available at www.hud.gov/nspta.

Part 1. Market Analysis

An effective NSP3 program reflects and responds to the local market conditions. This section highlights key information that the grantee should understand about its local housing market conditions, and provides guidance on how to:

- Assess potential target areas using the **NSP3 Mapping Tool**
- Analyze market **supply conditions**, especially as they relate to foreclosed and abandoned homes
- Understand **demand characteristics**, trends, and appropriate responses
- Comprehend the **interplay of supply and demand** to design successful programs.

Grantees should first familiarize themselves with the *NSP3 Foreclosure Need Map* to evaluate potential target areas. This provides additional background information to help the grantee understand the dynamics of its real estate market in general.

1.1 Using the HUD Mapping Tool to Assess Potential NSP Target Areas

The NSP3 grantee must target its funds to one or more areas of greatest need in its jurisdiction, and has the flexibility to define these areas. The grantee identifies its target areas in its substantial amendment to its Consolidated Plan or annual action plan. For simplicity, grantees can remember that target areas must be located in the top 20% of foreclosure needs scores and NSP3 programs should treat at least 20% of the REO units in those areas.

Selecting the right target areas is one of the first and most important decisions the grantee will make. Using the *NSP3 Foreclosure Need Map*, at www.huduser.org/nsp/nsp3.html, the grantee should explore several target areas, and review the data for each, before designating its target areas and boundaries. The map provides information at several levels of geography (down to the block group level) and can aggregate data for multiple areas drawn on the map. [An Update to the Mapping Tool is being developed to accommodate this function.] Instructions for creating target area maps are available on the mapping website above and in the *NSP Foreclosure Need Map Targeting Widget* presentation, available online at: <http://hudnsphelp.info/index.cfm?do=viewFindaResourceDetails&resourceID=801>

The goal is to identify areas where the grantee's NSP3 investment can have an impact and stabilize the neighborhood. In its analysis, the grantee should pay special attention to two numbers that the mapping system generates (for each geographic area identified by the grantee):

- **NSP3 foreclosure need score (NSP3NEED).** This number is an indicator of the geographic area's need for NSP3 assistance. The **grantee must select a target area with a foreclosure need score that is at or greater than the minimum need score for the State (NSP_MIN)**. The minimum need score for the State is also generated by the system and is the lesser of 17 (on a 20 point scale) or the State threshold score (20th percentile of the most needy census tracts in the State). **If the grantee selects more than one target area, the average foreclosure need score for all the selected areas is used.** Therefore, a target area may have a score that is less than the State's minimum need score, provided that when it is combined with the other selected target areas, the average score is greater. Note, the average score is weighted by the estimated number of housing units in each identified neighborhood. This means that the greater the number of housing units in a neighborhood, the more that neighborhood's score counts toward the overall average. In other words, not all neighborhoods weigh equally in the overall score.

The new function being added to the Mapping Tool will enable grantees to know quickly whether their overall score qualifies. Dense areas with low need scores will lower the overall score, so these should be avoided. Grantees should ask whether lower-need areas are necessary to make a logical target geography. Enlarging the area without a good basis will prove difficult, especially in light of the second number, Impact.

- **Number of housing units needed to make an impact in identified target areas (IMPACT).** This number presumes that a **minimum of 20 percent of REO units in a target area would need to be addressed to make a visible impact** in the area. Using quick math, grantees can determine if they have sufficient resources to have this impact. In general, grantees need to identify target areas that are small enough so that their NSP3 investment has a chance of making this impact. If the grantee selects more than one target area, it needs to establish goals, determine a level of assistance, and design an appropriate program for each area, based on its needs.

The *NSP3 Foreclosure Need Map* also provides other useful information about the geographic area, including descriptors of the low-, moderate-, and middle-income (LMMI) populations and indicators for property vacancy rates, foreclosures, and at-risk of foreclosures. Grantees should review the system's data dictionary to understand what data is provided and how to interpret it. This is available online at: www.huduser.org/NSP/docs/Data%20Dictionary%20for%20NSP3%20Data.pdf Note that data can also be downloaded at www.huduser.org/portal/datasets/NSP.html for use in GIS applications.

In addition, grantees can use the free services of www.policymap.com to understand other factors driving conditions in their communities. NSP3 data are already present on PolicyMap. This tool makes it easier to assess the relative need of the entire community, at once, rather than evaluating individual areas. As such, it makes an excellent counterpoint to the Mapping Tool. Users may also purchase more analytical tools, but the basic free service has very good information in a useful format.

1.2 Assessing Market Conditions

The grantee's analysis should include a review of market characteristics for the jurisdiction as a whole, as well as the market conditions for the proposed target areas. These conditions will determine suitable target areas as well as the type and potential volumes of planned production, prices, and locations. The market also affects the amount of necessary investment, the ability to sell or lease NSP-assisted units, development costs, and the levels and terms of NSP funding that are required to fill financing gaps. It is important to understand the market dynamics within target areas as well as within the larger market. Numerous public and private data sources (most free) can assist grantees in this task. Popular sources include www.realtytrac.com, www.trulia.com, and www.huduser.org/Datasets/nsp.html. These and many other sources can be found in Appendix A.

General Market Conditions

Critical market information on the demand side includes:

- Sales volume (the number of properties that are selling)
- Sales price (total and per square foot)
- Cost and availability of credit (interest rates and credit standards)
- Absorption rate (the number of weeks it takes to sell the current inventory at the current rate)
- "Age" of listings (average length of property listings).

Within each area, the grantee should understand the market forces overall as well as the sub-markets (such as price range, property/unit size, and type) and evaluate trends in the data over time. The analysis should use the most current and accurate data available, and the grantee should take care to understand any limitations or biases in the data. For instance, some real estate associations publish information on sales by their members which would exclude transactions not involving their members.

Tip for Success

Good market knowledge can help the grantee avoid many of the challenges that some NSP1 and NSP2 grantees experienced in program implementation, such as:

- Competition from short-term investors
- Limited availability of eligible properties
- Reluctant lender response
- Changes in the housing market after designing the NSP program.

Availability of NSP-Eligible Properties

The NSP target area markets may differ significantly from the general market when it comes to volume, price, absorption rate, and age of listings. Generally, the conditions under which NSP-eligible units are offered for sale also differ from the general market. The grantee must assess the likely volume of properties that are eligible for NSP3 activities. For its proposed target areas, the grantee should review data for:

- Foreclosed units
 - Number of foreclosed units
 - Number of delinquencies (future units)
 - Typical rate of delinquencies to foreclosures
 - Proportion of foreclosed units to all units for sale.
- Abandoned or vacant units
 - Number of abandoned and vacant units
 - Number of units that are delinquent on property taxes by 60 days and 120 days
 - Number of units that are under code enforcement action for abandonment.
- Density of eligible (foreclosed, vacant, or abandoned) properties.

Sources of Area Market Data and Expertise

Gathering market information can be challenging, and interpreting it even more so. The grantee should tap existing expertise in the community for data collection and analysis:

- Existing partners in affordable housing, such as:
 - Housing counseling agencies
 - Nonprofit and for-profit affordable housing developers
 - Housing and redevelopment agencies/other grantees
 - Housing assistance programs
 - Other local NSP grantees
- Local colleges and universities
- Real estate professionals and trade associations
- Multiple Listing Service (for recent sales)
- Proprietary databases of foreclosures and other market data

Note, where the grantee does not have staff that is qualified to do a market analysis, it should consider commissioning a local market study.

Other Important Market Issues

The grantee should also evaluate the characteristics of the NSP-eligible real estate market, including:

- **Typical development costs.** What are typical construction, rehabilitation, and related soft costs?
- **Level of required rehabilitation.** How much modernization or energy-efficiency is required?
- **Price volatility.** What is the likely change in value from acquisition to resale, or change in rents from initial underwriting to lease-up?
- **Resale and lease-up time.** What are the anticipated holding and marketing costs?
- **Property type.** What percentage of the available properties are single-family vs. multifamily?
- **Property/Project size.** What are the anticipated operating costs for rental housing?
- **Ownership.** What percentage of available units is owned by individuals vs. institutions (REO)?
- **Level of homeownership.** What is the proportion of owner-occupants that reside in the target area? Where owner-occupancy are declining or already low, homeownership programs are generally not suitable and a rental program should be considered. Often, tax assessment data for recent sales indicates owner-occupant versus investor purchases.

It is important to select areas of need whose market conditions will support the local program and where there is a reasonable likelihood that the local program will have a stabilizing impact on the community. For each target area, the grantee should ask whether its interventions can make a difference, given the circumstances in each area:

- **Existing assets** that can anchor redevelopment efforts (such as infrastructure, employment centers, neighborhood retail, schools, public transportation or parks)

- **Recent public and private investments** that have been made or are planned (including housing, economic development, redevelopment, capital improvements)
- **Factors** that could impact the success of the program within the area (such as environmental hazards or new roads).

1.3 Assessing Market Demand

The discussion so far has focused on supply side and need factors. When designing the local program, the grantee must also consider factors that affect the strength of demand for rental and for-sale housing—and most importantly, rental vacancy rates, recent home sales, and prevailing rents and sale prices. Figure 1-1 summarizes data that the grantee should review in order to better understand the market demand for homeowner and rental housing.

Figure 1-1: Data Affecting Market Demand

	Homeownership	Rental
Housing— Characteristics of the Units To Be Sold	<ul style="list-style-type: none"> ▪ Type ▪ Location ▪ Amenities ▪ Recent sales prices 	<ul style="list-style-type: none"> ▪ Type ▪ Location ▪ Amenities ▪ Current market rents in jurisdiction and in target area ▪ Current market rents in relation to affordable rents
LMMI Population – Characteristics of Potential Residents	<ul style="list-style-type: none"> ▪ Number of potential buyers and current residency ▪ Income ▪ Age ▪ Family size ▪ Individual vs. investor ▪ Language spoken 	<ul style="list-style-type: none"> ▪ Source of potential renters ▪ Income ▪ Age ▪ Family size ▪ Language spoken
Status of Existing Demand	<ul style="list-style-type: none"> ▪ Number of qualified buyers on waiting list for comparable housing programs ▪ Readiness of homebuyers (are they income-qualified with good credit?) ▪ Common obstacles to purchase (e.g., lack of down-payment funds, lack of available units) 	<ul style="list-style-type: none"> ▪ Number of renters on waiting list for comparable housing programs ▪ Vacancy rates in target areas ▪ Common concessions or leasing incentives offered in current market ▪ Common obstacles to renters (e.g., lack of income, lack of funds for security deposit, too few units for family size)

1.4 Drawing Conclusions about Market Types

After analyzing the market data, the grantee should have a general understanding of the areas that have the best potential to be NSP target areas. Figure 1-2 presents market types and their characteristics that are commonly found in NSP communities, and provides guidance on the implications for program design. [Part 5](#) of this guidebook explores these program design issues in more detail.

Figure 1-2: Common Market Types and Implications for Program Design

	LOWER SUPPLY OF ELIGIBLE PROPERTIES	HIGHER SUPPLY OF ELIGIBLE PROPERTIES
LOW DEMAND	<ul style="list-style-type: none"> There may be potential for demolition of “eyesore” properties and redevelopment of scattered properties for very low-cost rentals. For-sale programs are less likely to be feasible, particularly in areas where single-family homes are predominantly rented. Initially, land-banking might make sense, for redevelopment after the market strengthens. 	<ul style="list-style-type: none"> These are the most challenging markets. Home sales are typically difficult except in stronger blocks with fewer vacancies. Even very low-cost rentals may be difficult to market. Demolition and land-banking for future redevelopment may be best option; or selection of more marketable target areas.
MODERATE DEMAND	<ul style="list-style-type: none"> There may be potential for redeveloping scattered properties for LMMI buyers and renters if feasible with reasonable subsidies – such as in older neighborhoods where homes are modestly priced but need more extensive rehabilitation. Needs for LMMI households are typically not fully addressed by investor-owners who may be competing for the same properties, and putting upward pressure on prices. It is important to address properties in poor condition via demolition or rehabilitation to help increase overall demand and have longer-term stabilization impact. 	<ul style="list-style-type: none"> Home sales programs may work well if there is a strong trend of recent sales to owner-occupants versus investors. These may be promising markets for rental development. As above, tight geographical targeting and spot demolitions may be needed. Larger target areas might be designated but with an intention to focus on “mini-target areas” within the boundaries. Ideally these will be located near transit, employment, service centers, or redevelopment “anchors” in neighborhoods such as schools or already targeted redevelopment areas.
HIGH DEMAND	<ul style="list-style-type: none"> Market demand typically absorbs vacant properties, so these areas may not need the intervention of an NSP program. Acquisition costs may be very high. A few key “eyesore” properties might be addressed. 	<ul style="list-style-type: none"> If acquisition costs are low or moderate, there may be potential for redeveloping properties for LMMI buyers and renters. Acquisition costs may be high even if there are many vacant homes. NSP program should focus on a compact area to visibly reduce the number of vacant homes, and thus have a long-term impact on market demand. Spot demolitions may be needed to achieve that goal.

This part has focused on market conditions; these are outside the control of government. The next part of the guidebook (Part 2) looks at community involvement and goal-setting. Parts 3 and 4 review resources that grantees can control, such as leveraging, staffing, and partnerships. Part 5 then helps grantees match resources to market conditions for the most effective strategies.

Part 2. Defining the Community's NSP3 Goals

The grantee needs meaningful input from the community, particularly in potential target neighborhoods, to determine what the community can achieve with its NSP3 funds. The grantee's thoughtful consideration to this feedback can strengthen its NSP3 program design, and may have added benefits in the program implementation stage. For example, partners can help in finding buyers. This part provides guidance on how to involve the community in goal-setting for NSP3.

2.1 Refining Housing and Community Development Goals to Reflect Changing Conditions

Before finalizing goals for NSP3, the grantee needs to assess whether or not its existing housing and community development goals are still appropriate, given changes in the local housing market—particularly for the proposed target neighborhoods.

The grantee's current goals should be reflected in local comprehensive plans or other planning documents as well as in its Consolidated Plan. (The grantee may also have NSP goals articulated in its Consolidated Plan, if it participated in NSP previously.)

Sample Housing and Community Development Goals

- Increase property values
- Decrease number of dilapidated and/or vacant units
- Enhance affordability of housing
- Increase level of homeownership
- Increase availability of rental housing
- Build capacity of local developers

Lessons Learned from NSP1 and NSP2

Where the grantee has experience administering NSP1 and/or NSP2, it should draw on that experience to refine its NSP3 goals. In considering goals for NSP3, the grantee should consider:

- Has the jurisdiction made progress meeting the goals of NSP1 and NSP2? What has enhanced or impeded progress?
- Should the grantee continue or adjust its strategic direction from NSP1 and NSP2, as applicable?

NSP Regulatory Requirements

Establishing community goals must be done in the context of the NSP3 regulatory framework:

- Funds can be used only for five eligible uses:
 - A. Use financing mechanisms for purchase and redevelopment
 - B. Purchase and rehabilitate for sale, rental, or redevelopment
 - C. Establish and operate land banks
 - D. Demolish blighted structures
 - E. Redevelop for housing
- A minimum of 25 percent of the total NSP3 funding must be used to house individuals or families whose incomes do not exceed 50 percent of area median income (very low-income households).
- HUD requires grantees to incorporate energy efficiency and strongly encourages green building practices. Appendix B contains information on how to approach this cost-effectively.

Preliminary NSP Goals, Outputs, and Outcomes

On the way to developing a NSP3 action plan, the grantee has to decide:

- What does the grantee want to accomplish (goals), given current market conditions?
- What are the specific products or services that the grantee (or its partners) will deliver (outputs)?
- What are the intended effects that will result from carrying out the NSP program and activities (outcomes)?

Figure 2-1 provides some examples of typical housing and community development goals, and their related outputs and outcomes, many using data described in the previous part. These are intended to be a sample of possible measures and may differ based on the grantee’s own circumstances.

Figure 2-1: Sample NSP3 Goals, Outputs, and Outcomes

Goals	Outputs/Measures	Outcomes
Attract new residents to target area	# vacant and dilapidated units # homes repaired or constructed	Lower vacancy rate Better property maintenance
Improve property values and stabilize tax base	% change in average sales price # vacant lots	Increase in assessed valuations Increased home sales
Increase homeownership in target area and leverage opportunities for private lending	# of home purchases # of first-time homebuyers	Increased level of homeownership Increased median market values
Remove blighting influences and vacant structures	% of units demolished # of units rehabilitated	Stabilized population and property values
Increase housing supply for special needs populations	# of units reserved for special needs persons # of special needs persons served	Increased supply of special needs housing Reduced homelessness

2.2 Soliciting Meaningful Community Input

The community input process, in its ideal form, gives the grantee and community members an opportunity to share information about goals and needs, changing market conditions, and opportunities and constraints that might affect the program. The grantee is required to undertake an abbreviated citizen participation process (with a 15-day public comment period) for its NSP3 substantial amendment.

Experience shows that grantees that solicit meaningful input from the community, particularly in the proposed target areas, can engage the residents in the renewal effort and see longer-lasting results.

Community Input Process

The grantee should strive for inclusiveness in its community input processes. At a minimum, the grantee should solicit input from residents, businesses, and community institutions in its proposed target areas.

Signs of a Healthy Community Input Process

- The grantee provides a range of methods for citizens to have input in the development of NSP goals.
- Participation at public hearings and community meetings is high and active.
- Key stakeholders in the grantee's programs and the constituencies that are served by the grantee's programs (such as LMMI households, persons with special needs, and/or racial and ethnic minorities) review proposed plans and offer useful refinements.
- The citizen participation process generates lively debate and discussion about the best course for the NSP program.
- The grantee's proposed program activities are supported by the community throughout implementation.

The NSP3 community input process should be more targeted, focused, up-front, and specific than the community input process for the general plans. Since NSP3 activities are targeted to the areas of greatest need, the community input process should do the same.

Methods for Generating Community Input

Grantees should use a mix of communication tools to reach the broadest possible audiences. The following non-traditional methods can be used to solicit meaningful community input:

- Email solicitations and listservs to citizens, nonprofits, public agencies, and officials
- Translations for populations with limited English proficiency, and use of media resources (such as newspapers) that are available in those languages
- Advertising and marketing in public places [such as libraries, supermarkets, city buildings, city buses, downtown kiosk(s)]
- Community meetings where a draft plan is offered for focused response in the potential NSP target neighborhoods, with opportunities for verbal or written feedback
- Online networking tools such as Facebook, and online surveys such as Survey Monkey
- Focus groups of neighborhood residents and local businesses.

What Community Input Is Needed

What questions the grantee asks, and how it asks them, may impact the quality of the feedback it gets from its community members. It can be helpful to approach the community input process with a focus on sharing information. Community members as well as potential participants/stakeholders should have an understanding of both resource limitations and NSP3 goals early in the process. Such early discussions can serve to (1) build support for a targeted, realistic program development, (2) bring forth

additional ideas as to possible program approaches that could improve results, and (3) identify additional resources and skills that may provide additional support.

The grantee should seek feedback related to the following questions:

- What are the community's long- and short-term goals?
- What resources are available to achieve goals?
- What lessons have been learned from NSP1 and NSP2 (both pitfalls and opportunities)?
- Are there potential partners or other community members or stakeholders, who should be involved in the discussion of the community's needs, or who can help with program implementation?
- How can the grantee measure how well it achieves the program goals (outcomes)?
 - Consider how to measure both progress toward the goal(s) in the short-term (outputs) and achievement of outcomes in the long-term.

When the formal community input process concludes, the grantee should provide thoughtful consideration to the feedback it has received to develop its NSP3 program goals and determine the program design. In a dynamic program, the grantee will continue to engage the community during program implementation, and refine its goals and methods as changing needs require.

Part 3. Resource Constraints and Opportunities

Before making final decisions about NSP3 program design and methods, and using the market data developed in Part 1 of this guidebook, the grantee should evaluate its proposed activities in the context of the **constraints and opportunities** that are presented by its **funding availability, staff and partner capacity, and NSP3 deadlines**. This part discusses the funding and time issues. Part 4 evaluates staff and partner capacity.

3.1 NSP3 Funding

In most communities, the cost to address foreclosures, vacancies, and blighted properties far exceeds the available funding resources. The grantee must evaluate the cost of any programs it considers, and should compare the cost of its program options. In addition, the grantee should consider ways to leverage additional resources to arrest decline on a sustainable basis.

While program goals should be challenging, they should also be based upon reasonable expectations of what can be accomplished. The grantee should consider:

- **Given the housing market conditions, what are the most appropriate program types, and of those, which are most cost-effective?** Consider which local goals have greater priority because of both need and the resource capacity to address that need successfully.
- **Among the potential target areas, which are the best fit for the available resources?** Consider neighborhoods that could best benefit from a focused approach, and neighborhoods where the scale of the housing needs can be addressed with NSP3 funds plus other available resources.

Leveraging Resources

To leverage is to add resources and to expand the production capability of the NSP Program by using the grant to incentivize more funding. Grantees should seek opportunities to coordinate with other public and private resources. They can pursue opportunities for leveraging additional resources in three ways:

- **Leveraging at the project level.** Identify non-NSP3 financial resources that can facilitate development, spread risk, and reduce the amount of NSP funds necessary to a project.
 - Use NSP3 funding for “gap financing” to enable a stalled project to proceed.
 - Give priority consideration to programs or projects that are able to leverage other financing commitments (in ranking criteria for projects, and as a selection criterion for partners).
 - Make available target area property the grantee owns that is appropriate for NSP3 use.
 - Coordinate CDBG, HOME, and/or Low-Income Housing Tax Credit funds with NSP3 to enhance project production and achieve a greater, targeted impact.
 - Discuss with other public agencies the status of pending projects that are missing an investment gap which NSP3 could address.
 - Pursue coordination with statewide and local housing mortgage finance authorities, if these provide a source of mortgage financing that can work in coordination with NSP3 assistance.
- **Leveraging on a program basis.** Identify opportunities for use of other public investments in the target areas to increase the potential impact of NSP3 investments.
 - Consider whether CDBG or HOME funds can enhance NSP activities (e.g., infrastructure, other housing rehabilitation or development activities, or services) in the target neighborhood so as to achieve a more powerful impact.
 - Invest NSP3 in ways or in areas where CDBG, HOME, or other local resources are already planned, and which would be mutually supportive of neighborhood revitalization.
 - Consider using CDBG entitlement communities or HOME participating jurisdictions as State subrecipients to leverage local CDBG, HOME, or other resources to a State program.
- **Investing NSP3 in ways that generate income.** Invest only the amount of NSP3 funds needed for a project and that might generate program income to undertake additional program activities at a later time.
 - Disbursements to developers and subrecipients must be “necessary and reasonable.” Careful underwriting that adheres to this principal ensures that the grantee does not over-subsidize projects which would reduce funds available for other projects.
 - Loans, rather than grants, typically generate income for further program expansion. Where a development project can generate sufficient cash flow to repay loans, loans offer the opportunity to recapture all or part of NSP3 funds upon project completion. Loan repayments can then be re-invested for additional NSP3 production.

3.2 NSP3 Deadlines

NSP3 imposes strict expenditure deadlines:

- 50 percent of the NSP3 funds must be expended within two years of HUD signing the grantee agreement.

- 100 percent of the NSP3 funds must be expended within three years of HUD signing the grantee agreement.

When weighing its program options, the grantee should assess how quickly it can implement the program and see results. Not only may HUD withdraw funds from grantees that do not spend their NSP3 funds timely, communities feel a sense of urgency by the growing problem of foreclosures and property abandonment.

Grantees are often tempted to look first to potential projects that are “almost-ready” as a means of getting program activities underway. While existing opportunities for immediate action should not be ignored, the grantee is encouraged to consider priority targeting and program goals that best fit the market place and available resources.

3.3 Balancing Needs with Resource Constraints

Putting it all together, the grantee must consider the costs, timeliness, and efficiency of delivery as weighed against the community’s needs and goals. If the resource limitations will hinder the grantee’s ability to deliver a desired program type, the grantee must reconsider whether another approach may be more successful. Priority goals must be those that are achievable given resources and capacity, and must offer the best opportunities to maximize impact and result in long-term sustainable revitalization.

Part 4. Choosing a Program Delivery Method

Once the grantee has determined the most appropriate program design, it must determine the most effective way to deliver the program. Program delivery method refers to how the grantee will carry out the program—what staff will carry out the administrative and program functions and what organizational structure will the grantee employ to implement the local program.

This part assists the grantee with selecting a program delivery method and explores how to:

- **Assess the grantee’s staff capacity** to determine whether its staff has the skills and time to carry out the planned program
- Evaluate whether the grantee’s **existing organizational structure can support** the planned program
- **Engage external partners to extend grantee capacity.**

4.1 Assessing Staff Capacity

When choosing a program delivery method, the grantee needs to ensure that has the capacity to carry out all necessary staffing functions in the administration and implementation of the program, including:

- Administration
- Fiscal management
- Specialized services
- Program delivery and implementation of specific program type(s).

Administration

Administration is the overall responsibility for ensuring that the conditions of the grant are met. The grantee’s administrative staff needs might increase for NSP3 in:

- **Staff management**, including training staff in the requirements of NSP3, making staff assignments and providing support as needed, and staff and program coordination.
- **Oversight** to ensure compliance with NSP3 regulations, particularly where the grantee undertakes new program types or approaches existing program types in new ways.
- **Reporting**. NSP has a number of reporting requirements to ensure a high degree of transparency and public information.

Fiscal Management

Grantees that fail to give adequate forethought to the fiscal management aspect of the program or that fail to adequately staff this function run the risk of substantial noncompliance. The volume and intensity of NSP activity may place a strain on these existing fiscal management systems:

- **Procurement**. For NSP, the grantee may need to procure new vendors or new goods or services from existing vendors (such as engaging subrecipients, developers, and/or contract staff).
- **Grants accounting** to ensure the accurate documentation and allocation of NSP3 costs, and coordination of financial, reporting, and compliance functions.
- **Disbursement**. Timely disbursement of NSP3 funds is essential to ensure the momentum of property acquisition and improvement, and the continued participation of vendors and program partners.

Program Delivery and Implementation

For each program type that the grantee plans to undertake, the grantee needs to assess whether its staff has the necessary skills and experienced for successful implementation. Figure 4-1 summarizes the needed skills for each of the eight NSP program types.

Figure 4-1: Key Program-Specific Skills for NSP Program Types

Program Types	Skills Needed
Grantee-driven Homeownership	<ul style="list-style-type: none"> ▪ As in Buyer-driven Homeownership (below), with: ▪ Property evaluation, feasibility analysis, and acquisition ▪ If required, construction/rehabilitation specification-writing and estimation, or review of specifications and estimates created by developers ▪ Construction inspections, draw reviews, approvals, and processing ▪ Income certification and underwriting to fill the financing gap ▪ Marketing and home sales
Buyer-driven Homeownership	<ul style="list-style-type: none"> ▪ Establishment of rehabilitation/construction specifications, including green renovations ▪ Review of property acquisitions to ensure compliance with NSP criteria ▪ Homebuyer qualification and counseling ▪ Income certification and underwriting to fill the financing gap ▪ (For programs that involve financing rehabilitation, see rehabilitation skills needed in Grantee-driven Homeownership)

Lease-Purchase	<ul style="list-style-type: none"> As in Buyer-driven and Grantee-driven Homeownership, with: Single-family scattered-site property management Prior lease-purchase experience
Multifamily Rental	<ul style="list-style-type: none"> Acquisition and construction skills similar to those for Grantee-driven Homeownership except with multifamily focus Property management (if grantee will manage properties) Asset management (if grantee will own properties) Marketing and tenant qualification
Single-Family Rental	<ul style="list-style-type: none"> Development, property management, and asset management skills similar to those for Multifamily Rental Specific experience with scattered-site single-family rental development, which poses unique challenges and risks
Demolition	<ul style="list-style-type: none"> Review of ownership and status Conducting environmental reviews Demolition contracting and management
Commercial, Public, Mixed-Use*	<ul style="list-style-type: none"> Acquisition, construction, and marketing skills similar to Multifamily Rental but specific to the end use <p style="text-align: right;">* NSP2 and NSP3 funds may be used only for housing. Grantees that are considering a mixed-use development, should seek technical assistance from the local HUD office or www.hud.gov/nspta.</p>
Land Banking	<ul style="list-style-type: none"> Acquisition Property maintenance and asset management Creating re-use plans and marketing

Specialized Services

Depending on the specific program type(s) selected, NSP3 may require staff to perform highly specialized functions requiring a degree of expertise, such as:

- Environmental review
- Labor compliance
- Relocation.

Staff Availability

The grantee should carefully estimate the amount of staff time that is needed to implement the proposed program type(s), and compare it to the staff resources it has available. Staff members that do not have sufficient time available to perform the needed work represent a capacity gap just as much as staff members that lack necessary skills. A capacity gap created by time availability can be addressed through partnership or reassignment.

For each proposed program, the grantee should undertake a staff analysis similar to this example:

Example of Staff Analysis

The grantee plans to acquire 30 properties over a period of two years. It estimates that its acquisition and rehabilitation activities will generate an average of two draws per property. It expects that no more than six properties will be rehabilitated at a given time, and that it will need to process one draw per month. Each draw takes 12 hours to process and review.

The expected staff time impact for each draw can be calculated:

- 30 properties x 2 draws x 12 hours
= 720 hours of staff time over the next two years
- 6 properties x 1 draw x 12 hours
= 72 hours of staff time at the peak

4.2 Assessing Organizational Structure

For each functional area that it must carry out (administration, fiscal management, specialized services, and program activities), the grantee needs to determine whether it has (or can create) necessary policies, procedures, and business systems to ensure compliance with NSP3 requirements and effective program implementation.

Examples of questions to consider include:

- Does the grantee have a clear policy that specifies what internal and external approvals are necessary to acquire (or demolish) a property?
- Given the competition for properties in the target market, will this approval process support timely acquisition of properties?
- Does the grantee have adequate procedures in place for getting environmental/historical reviews approved, and can approvals be secured timely?
- How does the grantee process draw requests, and is the grantee's timeframe acceptable to its potential/existing partners?

In many instances, the grantee is able to create or amend its existing policies and procedures to support new program activities. However, the grantee may determine that certain function(s) are either best carried out by a third party, or should not be undertaken.

After the grantee assesses its internal capacity it should compare this to its preliminary NSP program types. Gaps or shortcomings can be addressed by adjusting the program type, partnering with an organization that possesses the needed capabilities, or expanding internal capacity through hiring and training.

4.3 External Capacity and Partnerships

Partnerships are an important—and, in many cases, a crucial—strategy for augmenting the grantee's program delivery capacity. The grantee can employ one or more of the following delivery methods to carry out its program:

- **Use of grantee staff.** The grantee uses its own, permanent full- or part-time staff for the direct administration of the grant and the implementation of the program.
- **Use of temporary or contract staff.** The grantee uses temporary or contract staff to administer or implement various aspects of the local program. These can be limited term staff employed by the grantee, grantee staff that are temporarily re-assigned or given limited term duties, contract staff, or consultants.
- **Use of a contractor.** A third party entity (usually a for-profit entity) is engaged by the grantee to provide specified goods or services to the grantee.
- **Use of subrecipient.** A nonprofit or governmental entity is engaged by the grantee to administer or implement the local program. A subrecipient is given a degree of authority to act on behalf of the grantee, and is typically given broad responsibility for implementing all or part of the local program and a budget to accomplish certain goals. States can also fund units of general local government directly to administer program activities, and the local government's role (called a State recipient) would be comparable to a subrecipient.
- **Use of developer.** Any of the entities above might directly engage a developer to undertake NSP3 development activities. A developer (1) acquires homes and residential properties to rehabilitate for use or resale for residential purposes and/or (2) constructs new housing in connection with the redevelopment of demolished or vacant properties. However, to be treated as a developer, the entity must demonstrate ownership or control of the property to be rehabilitated or redeveloped.
- **Collaboration with National Community Stabilization Trust (NCST) and its First Look Program.** HUD has partnered with NCST to help communities find and purchase REO properties from lenders more easily. The Trust's services, free to NSP grantees, include REO Match, a mapping tool which allows grantees to learn about properties that may not yet be foreclosed.

Figure 4-2 summarizes the types of roles that are appropriate for these different organizational structures, by staff role.

Some grantees have subcontracted to partners to provide virtually all of the program delivery capacity. For example, many local and State government grantees have traditionally avoided being housing developers, and instead provide loans or enter into other funding agreements with for-profit and nonprofit developers. Many local government grantees already administer demolition programs but contract out for the actual demolition work.

Special attention should be paid to the implications of these relationships and the entities eligible to be subrecipients. Procurement rules and eligible forms of compensation may be different based on the type of entity and relationship to the grantee. See *NSP Policy Alert: Guidance on Developers, Subrecipients, and Contractors* August 2010 at http://hudnsphelp.info/media/resources/NSPPolicyAlert_DevelopersSubrecipientsContractors_8-27-10.pdf

Assessing Partner Capacity

Once the grantee has assessed its own capacity, it should have a very clear picture of what services or assistance it requires from external partners. It should evaluate its potential partners thoroughly before making funding commitments, to ensure that the partner has the necessary capacity and experience. Some common NSP partnerships, and tips on assessing their necessary expertise, include:

- **Housing service professionals.** In most markets, grantees can readily find a sufficient number of appraisers, real estate brokers, attorneys, title companies, and other housing service providers. However, NSP activities require professionals that are skilled at dealing with foreclosures and the restrictions of public financing. The grantee should assess that capacity at the planning stages of an NSP3 program. While many real estate professionals are in the market, grantees should review the background of applicants, since real estate fraud can easily occur in a dysfunctional market.
- **Homebuyer counseling.** The grantee must require each NSP-assisted homebuyer to receive and complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. If the grantee plans to undertake homebuyer activities, it should contact all available HUD-approved housing counseling agencies to determine their availability and the typical costs charged for their services.
- **Developers.** Before undertaking any of the housing development program types, the grantee should carefully evaluate the capacities of residential real estate developers in its markets. In many markets, there are limited numbers of developers who know how to comply with Federal funding requirements—particularly for acquisition, rehabilitation, and sales of scattered-site single-family homes. The grantee should also evaluate its internal ability to provide training and technical assistance to developers to enable them to navigate the special requirements of the proposed NSP program types.

Figure 4-2: Types of Roles Appropriate for Organizational Structures by Staff Role

Staff Role	Grantee Staff	Temporary or Contract Staff	Contractors	Subrecipients/Developers
Administration	<ul style="list-style-type: none"> ▪ Retain most functions to ensure control of overall effort. ▪ Grantee staff must oversee and coordinate all the other parties involved in program delivery. 	<ul style="list-style-type: none"> ▪ Supplement staff efforts and provide technical assistance. ▪ Seasoned consultants can offer technical assistance, support, and advice. ▪ Reporting. 	<ul style="list-style-type: none"> ▪ Administration requires a high degree of integration with grantee staff and knowledge of grantee internal systems. 	<ul style="list-style-type: none"> ▪ Subrecipients support administrative efforts, particularly reporting. ▪ Subrecipients assume some obligations of the grantee. (This does not relieve the grantee of these obligations.) ▪ Developers not generally responsible for administration.
Fiscal Management	<ul style="list-style-type: none"> ▪ Retain internal functions to ensure integrity. ▪ Grantee must retain certain fiduciary duties. 	<ul style="list-style-type: none"> ▪ Processing payment requests. ▪ Data entry and documentation. 	<ul style="list-style-type: none"> ▪ Generally not suitable. ▪ Use escrow companies to expedite disbursement of funds. 	<ul style="list-style-type: none"> ▪ Generally not suitable. ▪ Subrecipients have to comply internally with many of the administrative requirements of NSP. ▪ Developers not generally responsible for fiscal management of grant.
Specialized Services	<ul style="list-style-type: none"> ▪ Skilled staff can be used, especially for property inspections or maintenance. ▪ Staff can contribute to specific tasks or assist with the evaluation of work efforts by contractors, subrecipients, or developers. ▪ <u>Example</u>: Planning staff can assist with environmental review. 	<ul style="list-style-type: none"> ▪ Appropriate where the volume of work is consistently high or other duties can be assigned. ▪ Short-term nature of NSP makes this challenging. ▪ Staff can contribute to specific tasks. 	<ul style="list-style-type: none"> ▪ Well-suited to short-term engagements. ▪ Any activity requiring a high level of expertise will likely have a firm or individual who offers that service as a contractor. ▪ Best for discrete activities that require an arms-length relationship to program such as inspections, appraisals, lead-based paint testing. 	<ul style="list-style-type: none"> ▪ Subrecipients generally not suitable; some developers have specialized expertise and may be engaged as part of overall development activity. ▪ The level of effort to engage a subrecipient is typically not cost-effective for only a limited service.

Staff Role	Grantee Staff	Temporary or Contract Staff	Contractors	Subrecipients/Developers
Program Delivery	<ul style="list-style-type: none"> ▪ Intensity of effort makes this challenging unless there is an active program with capacity. 	<ul style="list-style-type: none"> ▪ See “specialized services” above. 	<ul style="list-style-type: none"> ▪ Can be suitable in certain circumstances. ▪ Best suited to specific roles or tasks within a program such as homebuyer counseling, marketing, brokerage, or construction management. 	<ul style="list-style-type: none"> ▪ Particularly well-suited for subrecipients and developers. ▪ Subrecipients and developers can be assigned specific program types, target areas, or be allowed to compete if volume is high enough. ▪ Use of subrecipients and developers has specific advantages.

Part 5. Choosing and Designing Program Types

This part brings the information of the previous parts together to guide the grantee through a determination of which of the eight NSP program types it will include and budget for in its substantial amendment to its annual action plan or abbreviated plan.

The grantee should base program decisions on its goals, real estate market(s), program management and delivery capacity, and available funding (from NSP3 and other sources). Drawing on lessons from NSP1 and good business practices, this part:

- Describes eligible program activities under NSP3
- Provides guidance on what types of programs work best in differing housing markets
- Provides examples of successful program design choices
- Identifies links to toolkits and other resources on the *NSP Resource Exchange*.

5.1 The Overall Context: Market, Goals, Capacity, and Funding

Selection of NSP program types should be driven by the grantee's assessment of its goals, the characteristics of its local real estate market(s) and the sub-markets in which it wants to be active, its technical capacity, and the availability of funding through NSP3 and other sources. The prompts listed below will help the grantee consolidate its findings and preliminary decisions:

- Market analysis (discussed in [Part 1](#))
 - What target areas will be selected?
 - What are the characteristics of the target areas (weak, stable and strengthening, etc.)
 - Based on supply and demand estimates, what NSP3 program types are the best choices?
 - What is the estimated production in each program type?
 - What "micro-target areas" might be selected to maximize revitalization impact?
- Community needs and goals (discussed in [Part 2](#))
 - What are the priorities for the target areas selected?
- Resources and capacity (discussed in [Parts 3 and 4](#))
 - What is the amount of the NSP3 award?
 - What other funding is available that can be combined with the NSP funds?
 - What program types will be delivered by the grantee, and for what activities might the grantee need to tap other partners?
 - Do these resources match the program types and volumes of work that are planned?
 - How much program income can the grantee expect the NSP3 program to generate?

5.2 NSP3 Program Types

The grantee should use its planning analysis to select the NSP3 program type(s) that will be most successful in its target areas and most likely to achieve its goals. (Program types are defined in the [Overview](#).)

Experience in NSP1 and NSP2 has shown that the some program types are better suited to some markets than others.

Figure 5-1 provides a framework to help the grantee identify issues it must consider in its program design, by program type.

For example, as Column 1 in Figure 5-1 shows, a homeownership program will be more successful in a stable or strengthening market, where foreclosures are scattered, and where the single-family housing stock is in pretty good shape. If a grantee's goals are to reoccupy homes that had been foreclosed, increase homeownership for LMMI households, and do some targeted revitalization, then a homeownership might be the right program type.

However, housing market characteristics are not the only factors to consider.

Column 3 lists the key capacities either the grantee or its partners must have to successfully implement a homeownership program. Without this capacity, even though this program type is generally a good match for the market, the grantee is not likely to be successful and should consider alternatives.

Column 4 suggests appropriate uses of NSP funds for each program type.

In some cases, the grantee will find that its market, goals, and capacity will not line up as neatly as shown in Figure 5-1. The grantee would then select the best possible option(s) available to it that will support timely expenditures of NSP3 funds, for eligible purposes, and with the best possible impact on the target areas.

For additional assistance, grantees should contact their HUD Field Office and participate in the webinars and clinics that HUD offers.

Figure 5-1: Grantee Considerations by Program Type

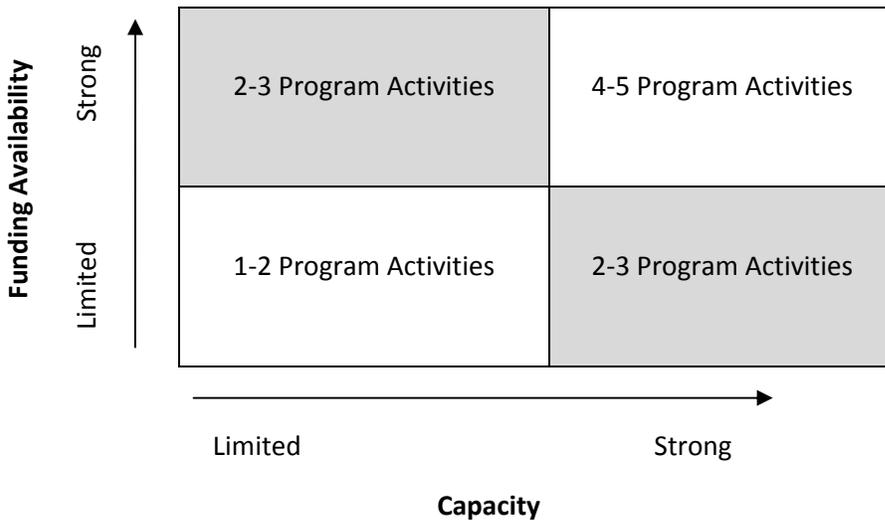
	1. Recommended Market Types	2. Grantee/ Community Goals	3. Key Capacities Required (Grantee/Partners)	4. Uses of NSP Funds
	<ul style="list-style-type: none"> ▪ Stable or strengthening ▪ Scattered foreclosures ▪ Consider micro-target areas 	<ul style="list-style-type: none"> ▪ Revitalization ▪ Enhance affordability ▪ Increase homeownership ▪ Promote energy efficient housing ▪ Coordinate NSP3 with investments in transportation, education, and health 	<ul style="list-style-type: none"> ▪ Scattered site single-family acquisition/ rehabilitation/resale ▪ Developer agreements and financing ▪ Processing 2nd mortgages ▪ Assistance with 1st mortgages ▪ Homebuyer education/counseling ▪ Marketing ▪ Green building, if applicable 	<ul style="list-style-type: none"> ▪ As below for Buyer-driven Homeownership ▪ Developer financing for acquisition, rehabilitation, or new construction
	<ul style="list-style-type: none"> ▪ Stable or strengthening ▪ Scattered foreclosures ▪ Suitable homes likely to need little or no rehabilitation <p><i>NOTE: Works better when buyers can select houses in a broader geography rather than from one small restricted area</i></p>	<ul style="list-style-type: none"> ▪ Reoccupy qualified homes ▪ Enhance affordability ▪ Increase homeownership for LMMI ▪ Target revitalization efforts to increase impact 	<ul style="list-style-type: none"> ▪ Intensive staffing to help multiple buyers learn & meet NSP regulations ▪ Assistance with acquisitions and finding 1st mortgage financing ▪ Processing 2nd mortgages, if applicable ▪ Homebuyer education/counseling <p><i>NOTE: Rehabilitation financing is more labor intensive and challenging</i></p>	<ul style="list-style-type: none"> ▪ Homeowner 2nd mortgage assistance ▪ Down payment and closing cost assistance ▪ Rehabilitation financing

	1. Recommended Market Types	2. Grantee/ Community Goals	3. Key Capacities Required (Grantee/Partners)	4. Uses of NSP Funds
Lease-Purchase	<ul style="list-style-type: none"> Useful in weak markets in which demand for for-sale housing is not strong <p><i>NOTE: Property management becomes more difficult if very scattered</i></p>	<ul style="list-style-type: none"> Stabilization Revitalization Increase homeownership Promote energy efficient housing Coordinate NSP3 with investments in transportation, education, and health 	<ul style="list-style-type: none"> As above plus lease-purchase capacity 	<ul style="list-style-type: none"> As above plus arrangements for permanent financing for buyers
Single-Family Rental (1-4 Units)	<ul style="list-style-type: none"> As above in Lease-Purchase <p><i>NOTE: Scattered site rentals are generally more expensive and complicated to maintain because staff must travel to different sites.</i></p>	<ul style="list-style-type: none"> Stabilize the market Revitalization Enhance & preserve affordability Resale to homebuyers when market improves Reduce vacancies Build inclusive communities Meet NSP3 25% low-income set-aside requirement 	<ul style="list-style-type: none"> Developer agreements and financing Scattered-site single-family acquisition/ rehabilitation Scattered-site single-family property management Obtaining leveraged permanent financing Marketing 	<ul style="list-style-type: none"> Development financing Permanent financing
Multifamily Rental (5+ units)	<ul style="list-style-type: none"> Weak, stable or strengthening Consider micro-target areas 	<ul style="list-style-type: none"> Stabilize the market Revitalization Enhance & preserve affordability Build inclusive communities 	<ul style="list-style-type: none"> As above, but multifamily versus single-family capacity Familiarity with tax credit programs (if applicable) 	<ul style="list-style-type: none"> Development financing Permanent financing
Demolition	<ul style="list-style-type: none"> Weak areas to clear multiple properties for future revitalization Stable or strengthening areas for spot demolitions 	<ul style="list-style-type: none"> Eliminate problem properties Clear for redevelopment Clear for land banking 	<ul style="list-style-type: none"> Inspections Contracting for demolition Interim management if parcels are acquired 	<ul style="list-style-type: none"> Demolition funding Coordination with redevelopment or land banking funding where acquisition is desired

	1. Recommended Market Types	2. Grantee/ Community Goals	3. Key Capacities Required (Grantee/Partners)	4. Uses of NSP Funds
Commercial, Public, Mixed-Use	<ul style="list-style-type: none"> Weak, stable or strengthening 	<ul style="list-style-type: none"> Revitalization Coordinate NSP3 with investments in transportation, education and health 	<ul style="list-style-type: none"> Commercial development Residential development Marketing 	<ul style="list-style-type: none"> Development financing (for housing component) Permanent financing (for housing component)
Land Banking	<ul style="list-style-type: none"> Weak Very distressed 	<ul style="list-style-type: none"> Eliminate problem properties Hold for redevelopment 	<ul style="list-style-type: none"> Interim management Redevelopment 	<ul style="list-style-type: none"> Acquisition funding Maintenance during holding period

In general, the grantee should try to avoid unnecessary complexity when selecting its NSP3 program type(s). It is best to tailor the number of NSP program types to the funding that is available and the grantee and partner capacity to implement, as Figure 5-2 below illustrates.

Figure 5-2: Tailoring the Number of NSP Programs to Available Funding



A grantee with limited staff capacity, which has access only to its NSP3 award, should consider limiting its programs to one or two activities that are relatively easy to administer. For example, it might elect to devote its funds to the redevelopment of multifamily properties, or to homebuyer assistance in a single target area.

However, a grantee with skilled staff members that are not deployed on other programming, or who can easily contract with partners for needed expertise, will have more options for the types and number of programs it can choose. This is especially true when it also has the ability to leverage other funds to enhance the impact of NSP3, such as CDBG, HOME, or housing trust fund dollars. A grantee with strong capacity and multiple funding sources could create four or five program types.

5.3 Meeting the 25 Percent Low-income Set-aside Requirement

The grantee must use 25 percent of its NSP3 allocation for permanent housing for households with incomes that do not exceed 50 percent of area median income (very low-income households). This low-income set-aside requirement can be carried out through one or several program types, and any eligible properties can be used. The grantee is not required to use only abandoned or foreclosed residential properties to meet the set-aside requirement, as it was in previous NSP funding rounds. HUD will review the grantee’s plan substantial amendments or abbreviated plan to ensure that at least 25 percent of the award plus program income is budgeted for this purpose.

A grantee needs to choose its program types carefully to ensure that it is able to meet the 25 percent low-income set-aside requirement. Program types that have been found to serve very low-income households effectively include single- and multifamily rental, and special needs housing for people with disabilities (using single-family or multifamily properties). Note that temporary emergency shelters are not considered housing, and NSP3 funds cannot be used to create them.

While eligible, home purchase programs may be harder to implement in target areas where sale prices are high relative to incomes and require high levels of subsidy. A grantee considering meeting the 25 percent low-income set-aside requirement in this way should only do so if it is confident that very low-income buyers can obtain mortgage financing and have the ability to sustain homeownership over the long term.

5.4 URA and Tenant Protection Considerations

The grantee can acquire properties after foreclosure proceedings have been initiated and while still owned by the lender of record. As such, the grantee must ensure not only that lenders comply with tenant protection laws when purchasing a foreclosed property, but also that the grantee complies with these requirements when it (or a partner) purchases a home prior to the completion of foreclosure proceedings.

For areas where there is a shortage of vacant properties available on the market, the grantee may need to consider undertaking projects that involve relocation activities. The legal requirements pertaining to the Uniform Relocation Act (URA) requirements can be very difficult to address, so the grantee must take care to identify and work with partners that have expertise and experience in relocation requirements. Such activities can add substantially to both the cost and time required.

For additional information on this topic, see

www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm.

5.5 Effective Program Design

An effective program design includes the following elements:

- A program summary, such as in Figure 5-3 below, that shows the units to be developed by the grantee and/or by the partner(s), the target areas, and the amounts allocated to each NSP use.
- Program policies and procedures are available on the *NSP Resource Exchange* under “Toolkits.” (Go to www.hud.gov/nspta and under “Find a Resource” select “Toolkits.”)
- Generic developer, subrecipient, and contractor agreements including scopes of work, payment terms, etc. (Examples are posted on the *NSP Resource Exchange* under “Toolkits.” Grantees can modify them as needed to meet their unique program needs).
- Management plans for each unique NSP sub-program. This should show key program benchmarks and responsibilities for implementation. (See examples on the *NSP Resource Exchange* under “Toolkits.”)

5.6 Example of Effective Program Design Selection Process

Nirvana County received a \$3.3 million NSP award. The County has a strong system in place for contract procurement and management, but its staff is stretched thin implementing other programs. However, there are two local nonprofit organizations that have sufficient staff capacity to implement single-family purchase/rehabilitation/resale programs in the target areas. In addition, a third nonprofit and a public housing authority agreed to work together to develop and manage two multifamily rental properties.

Nirvana County staff assessed the County’s needs and capacity as illustrated in Figure 5-3:

Figure 5-3: Nirvana County Needs and Capacity

Housing Market	Home purchase market is weak in many areas. Some pockets are stable or strengthening, particularly where previous revitalization efforts have been concentrated. Strong need for multifamily housing, especially in Pamola and Birchwood where real estate values had nearly doubled between 2002 and 2007, and where prices have dropped 40%.
Community Goals	Revitalize target areas by strengthening homeownership, improving the housing stock, and building new infill housing. Create affordable rental housing, especially for very low-income households. Stabilize declining housing markets throughout the County.
Capacity	Nirvana County has limited staff capacity due to budget cuts. It has strong procurement policies and a good track record in contracting with local housing partners. Local housing partners have experience in developing and marketing single-family housing, and developing and managing rental properties.
Funding Availability	In addition to its \$3.3 million NSP3 grant, Nirvana County can allocate \$1.2 million in CDBG funds. The public housing authority has also agreed to provide project-based Section 8 Vouchers for one of the multifamily properties.

Upon review of its market, goals, capacity, and funding, Nirvana County staff decided to go with its strengths and undertake activities where it had experienced partners that it could engage. The County did not have sufficient funding and time to build new infill housing, nor did it have sufficient funding to intervene in a meaningful way in weak or declining markets. Instead, it decided to allocate funds in the County’s action plan substantial amendment to the following purposes (note, all eight program types are listed though the example in Figure 5-4 selects only two):

Figure 5-4: Nirvana County’s Program Summary

	Units by Grantee	Units by Partner(s)	Target Areas (List)	NSP Budget
Buyer-driven Homeownership				
Grantee-driven Homeownership	0	20	Census Tract 1; 3; 10 (block groups 1-3);15; 18 (block groups 6-9)	\$1,800,000
Lease-Purchase				
Single-Family Rental (1-4 Units)				
Multifamily Rental (5+ units)	0	14	Pamola, Birchwood	\$1,170,000
Demolition				
Commercial/Public/Mixed-Use				
Land Banking				
Administration				\$330,000
Totals	0	34		\$3,300,000

In addition to limiting the number of program activities, Nirvana County limited its grantee-driven homeownership program to particular census tracts and blocks as part of a three-year revitalization effort. In these neighborhoods, the real estate market had been weak but was showing signs of recovery. Other public funds would be available to help with acquisition and permanent financing, and street, sidewalk, and landscaping improvements were planned that would support the resale of the single-family properties. This would allow the NSP3 funds to have a greater impact than if they were distributed throughout the County. The two nonprofit developers agreed to prioritize the acquisition of highly visible problem properties whose successful redevelopment would help restore confidence in the neighborhood.

The County selected two multifamily properties that are located on the main street of small cities that had experienced rapid price escalation during the housing boom. Both properties were vacant and foreclosed, and were a blighting influence on the surrounding neighborhood. Use of the NSP3 funds would allow the developer to correct code violations, upgrade systems, and make them more energy efficient, while preserving their affordability for very low-income households (earning below 50 percent of median income). The County expects to meet its 25 percent low-income set-aside requirement with this rental activity.

Part 6. Special Issues for States

States received from a minimum NSP3 allocation of \$5 million to a maximum of \$11,795,818 based on a formula that determined the extent of the State’s needs. There are certain considerations that States must take into account when making decisions about how to distribute and implement NSP3. This part describes:

- Considerations for the State in determining the areas of greatest need
- How to design a program that takes into account the unique administrative organization and varied geographic needs of a statewide market.

6.1 Administration

States have several options for how to structure their program implementation:

- **Implementation by partners.** Unlike local jurisdictions, a State may determine the areas of greatest need and provide authority to an entity in that area to implement the program and disburse NSP funding. The State can provide funding to a unit of general local government or, unlike under CDBG, it can provide funds directly to a subrecipient or developer to undertake program activities.
- **Carry out projects directly.** With the right capacity and projects, a State may decide to administer the program itself, and carry out program activities itself.
- **Combination of approaches.** A State may provide authority to another entity or entities to implement a portion of the program and administer the other portion in-house.

6.1 Determining Areas of Greatest Need

The state has a larger geographic area and a larger variety of communities and capacity to account for than city and county grantees. These additional factors increase the number of unknowns. Therefore, more so than for other grantees, the state must incorporate more flexibility into its areas of greatest need in its action plan. Unlike the NSP1 program, the Mapping Tool allows states to work in **any** areas deemed High Risk (at or above the minimum need score for the state). This means that states are no longer required to work exclusively in areas with the highest needs scores as in NSP1. Multiple target areas may be included as well, if their weighted average risk score is at or above the state's minimum.

Until the program is underway it can be difficult to predict the level of interest and need for NSP3 funding in certain markets. For example, the State may identify an area of greatest need in its action plan that six months into the program turns out not to have sufficient demand and/or capacity to deliver successful projects. As such the State should identify a sufficient number of areas of greatest need in the action plan so that it can substitute a different area should it find that one area that is not the right fit for NSP3 funding. It needs to ensure that enough properties can be identified, acquired, and ultimately disposed of to meet NSP3 funding within the expenditure deadlines. At the same time, the list of potential target areas should not be so large that only a small percentage of them are selected to receive NSP3 funding. In addition, the State should do as much analysis of the State market as possible during the action plan stage to avoid spending time and resources in markets that are not right for NSP3. Areas proposed by states, but not funded, must be removed from the program by amendment.

States may wish to consider selecting projects, competitively or otherwise, **before** submitting the Amended Action Plan. This offers several advantages. First, it enables the state to know exactly which target areas are being addressed, rather than a large list of possibilities. Second, it places the start date of the program at the end of the selection process, not before it. This enables state subrecipients to start immediately and have three full years to meet the expenditure requirement.

6.3 Approaches to Program Design

Unlike other funding programs a State may implement, the goals of NSP are very specific and are intended to stem the foreclosure crisis and revitalize neighborhoods that are plagued with property abandonment and blight. It is in this context that the State needs to make determinations about how to administer its NSP3. Some questions to keep in mind as the State thinks about how to design its NSP3 programs:

- Does the State have capacity, or can it contract for capacity, to operate a centralized program?
- Can the State utilize its existing partners to administer the program? In some States the areas of greatest need may not be in the jurisdictions where the local government participates in the State CDBG program but rather the areas with highest need may be located in entitlement areas or in smaller communities that do not currently operate CDBG programs.
- If the areas of greatest need are in smaller localities, do the local governments have the capacity to undertake the NSP activities?
- Can the State spend the NSP3 funds more quickly if it directly contracts with developers and/or subrecipients? If the State elects to work with new partners, will the project application process and contractual agreements require training and/or support to ensure compliance with NSP?

6.4 Partner Selection

The State can increase its likelihood of success if it uses partners that have expertise in HOME, CDBG, or NSP. Since States often administer programs that are geographically separate, it can be more difficult for a State to provide rigorous oversight to an inexperienced partner than the typical local grantee. The State should partner with entities that have demonstrated success in the delivery of housing projects.

The State should also ensure that it does not partner with too many entities, or disburse funds to too great a number of communities. Some States may have a lot of areas that are in need of NSP funding to stem the foreclosure crisis and address blight, but it is important to balance these needs with the practical limitations of oversight capacity and ability to concentrate efforts for maximum impact.

In prior rounds of NSP funding, some States ran a separate competition to attract large multifamily and redevelopment projects in order to meet the 25 percent low-income set-aside requirement. This was a successful approach for the grantees used it because it allowed them to meet the 25 percent low-income set-aside without having to oversee a larger number of projects and partners in markets that the State may not be familiar with.

For more information on State NSP3 administration see *NSP Policy Alert: NSP State Program Guidance*, November 2009 at

http://hudnsphelp.info/media/resources/NSPPolicyAlert_StateNSPPlans_11.1.09.pdf

Tip for Success

Do not distribute NSP funds to too many communities. Funding too many communities might lessen the impact of stabilizing communities. Likewise, States should fund only the number of partners that they can manage and monitor effectively.

Appendix A: Data Sources

- Free Public Sources
 - HUD User
 - NSP Data - www.huduser.org/Datasets/nsp.html
 - USPS Vacancy Data - www.huduser.org/portal/datasets/usps.html
 - US Housing Market Conditions - www.huduser.org/portal/periodicals/ushmc.html
 - Foreclosure-Response.org
 - Policy Map - www.policymap.com/maps
 - GeoData.gov
 - US Census Bureau American FactFinder - <http://factfinder.census.gov>
 - US Bureau of Labor Statistics - www.bls.gov
 - States and regional planning agencies may also provide housing and population estimates
- Free/Paid Private Sources
 - ESRI - www.esri.com/data/free-data/index.html
 - www.dataquick.com and www.dqnews.com
 - www.foreclosures.com
 - Mortgage Bankers Association - www.mbaa.org/ResearchandForecasts
 - RealtyTrac - www.realtytrac.com
 - www.zillow.com
 - www.trulia.com
 - National Association of Real Estate Brokers - www.nareb.com
 - National Association of Realtors® (NAR) – www.realtor.com
 - NAR Blogs - www.realtor.com/blogs
 - State and local associations - <http://www.realtor.org/leadrshp.nsf>
- Paid Private Sources
 - www.CoreLogic.com
 - MarketTrends - www.corelogic.com/Products/Market-Trends.aspx
 - RealQuest – www.realquest.com
 - MetroScan - www.corelogic.com/Products/MetroScan-Online.aspx
 - LoanPerformance - www.loanperformance.com/aboutus/new-visitor.aspx
 - Moody's Analytics - www.economy.com/home/products/housing-market-monitor.asp
 - ESRI - www.esri.com/data/esri_data/
- Multiple Listing Services (MLS) – These local and regional information exchanges, created by real estate brokers, provide data on properties that are for-sale and properties that have recently been sold. The for-sale listings are generally available to the public on broker websites; however, data for recently completed sales generally is restricted for brokers only. This data is sometimes listed with addresses and sometimes not.

Appendix B: Green Housing Construction and Rehabilitation

The NSP3 Notice includes Attachment C, “NSP Recommended Energy Efficient and Environmentally-Friendly Green Elements.” HUD encourages thoughtful, achievable consideration and implementation of energy efficient and environmentally-friendly elements in the NSP3 program. Attachment C of the NSP3 Notice provides information and guidance on the following Green elements:

- Transit accessibility
- Green building standards
- Reuse of cleared sites
- Deconstruction
- Renewable energy
- Water conservation
- Energy efficient materials
- Healthy homes

HUD provides that a grantee may “require NSP homes to achieve an established environmental or energy efficiency standard such as Green Communities or equivalent.” The following resources are designed to assist grantees in the construction and rehabilitation of green affordable housing. These are provided on the *NSP Resource Exchange* under “Toolkits,” at <http://hudnsphelp.info/index.cfm?do=viewToolkitsHome>

- Green Housing Development Guide
<http://hudnsphelp.info/media/resources/GreenHousingDevelopmentGuide.pdf>
- Sample Housing Rehabilitation Checklist
<http://hudnsphelp.info/media/resources/HousingRehabilitationChecklist.doc>
- Sample Single-Family Housing Rehabilitation Specifications, including Green Specs
<http://hudnsphelp.info/media/resources/SampleSingleFamilyRehabSpecificationsIncludingGreenSpecs.doc>
- Sample Single-Family Housing Rehabilitation Standard Template
<http://hudnsphelp.info/media/resources/SingleFamilyHousingRehabilitationStandard.doc>

More tools will be added to the resource page as developed. Additionally, grantees interested in implementing Enterprise Green Communities Criteria can contact Enterprise for further information and assistance via www.greencommunitiesonline.org/